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TAGS: [PTER](#) [KFIN](#) [KFTN](#) [IR](#) [SZ](#)
SUBJECT: ZURCHER KANTONALBANK REPORTS IT IS 98% OUT OF THE
IRANIAN BUSINESS

REF: BERN 808

Classified By: C. Buck, Pol/E; reasons 1.4(b) and (d).

11. (C) Summary: Emboff met November 19 with Juerg Reichen, Head of International Banking for Zurcher Kantonalbank (ZKB), who traveled to Bern for the meeting, to discuss the bank's Iranian relationships. Reichen explained that ZKB had reduced its Iran portfolio by about 98% since its management decision to extricate the bank from its Iran relations. He reiterated that the senior leadership made the decision because of the high due diligence costs and the threats to the bank's reputation. Reichen explained that the bank's remaining business is in keeping with the "spirit of the Iranian Sanctions Act" and is focused entirely on pharmaceuticals (Novartis and Roche) and agriculture (Monsanto). Regarding the terminated relationships, Reichen believes Bank Markazi and ZKB's other clients have moved to Russia and China for their banking needs. End Summary.

Zurcher Kantonalbank 98% Out of Iranian Market

12. (C) Juerg Reichen traveled to Bern to meet with Emboff on November 19 to update the USG on Zurcher Kantonalbank's efforts to end its relationships with Iran. Reichen explained that ZKB has ended 98% of its Iranian relationships and the remaining exposure is 100% concentrated in export credits for pharmaceuticals (cancer drugs) and agriculture (soybeans). These relationships are insured by Swiss Export Risk Insurance (SERV) and are in line with the spirit of the Iran Sanctions Act. The current level of exposure is a significant reduction over August's (REFTEL) and ZKB believes, according to Reichen, that it is now on solid footing regarding risk and exposure to Iran.

Iran Getting Desperate?

13. (C) Reichen said he believes the sanctions regime is having the intended impact and that the mood in Iran is turning desperate. He explained, by way of circumstantial evidence, that ZKB's actions to end its relationships resulted in "unusual" outreach from Tehran. The governor of Bank Markazi called Reichen on "holy Friday" pleading that its account not be closed. Reichen rebuffed the appeal and closed the account, but believes that this is an indication that the UNSCRs are having the desired impact. He added that the money in ZKB's possession appears to be heading to Russia and China, although he could not provide the exact banking destinations. He also believes that there are some small

private banks in Switzerland with active Iranian relationships. These relationships are small in value and are concentrated on legitimate business such as the diplomatic missions and the national flag carrier, but there could be others.

COMMENT: Working to Repair its Image and to be Constructive

¶4. (C) Embassy Bern believes that Zurcher Kantonalbank is turning the page on its winter 2006 to spring 2007 activities with Iran and is making best efforts to end all business of any question with Iran. As the leadership explained in August (REFTEL), ZKB is trying to return to its core business. Its willingness to meet with USG officials in Zurich or Bern should be taken as an indication that it wants to repair its image and wants to be a constructive partner.
END COMMENT.
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